Impact of Tax Hikes on American Businesses and Workers: Fact vs. Fiction

Compiled by Senate Finance Committee Republican Staff

Misleading claims continue to be made about the Tax Cuts and Jobs Act of 2017 (TCJA) to justify proposals that would raise taxes on American businesses during a global pandemic. Some of these claims are based on incomplete data, and others are patently false. As proposals are considered that would shape current and future U.S. tax policy, it is important to look at the facts: the proposed tax increases on American businesses would put U.S. companies at a disadvantage in the global marketplace, translating to fewer jobs, lower wages, and lower retirement account values for American workers and households.

CLAIM: Tax hikes on U.S. businesses won't affect American workers.

FACT: Corporate tax increases are borne in significant part by American workers, through reduced wages and lower retirement account values.

The nonpartisan Joint Committee on Taxation has estimated that 25 percent of the corporate income tax is borne by workers. More recent estimates have concluded that **the amount of the corporate income tax borne by workers is closer to 50 percent**, and that low-skilled, young, and female employees bear a larger share of the tax burden. That means higher taxes on U.S. businesses translates into fewer jobs and lower wages for American workers. In fact, the data show that for lower income households, **families bear a larger tax burden on average from corporate income taxes than from individual income taxes**.

Tax hikes also hit retirement nest eggs. American households own corporate stock, whether directly or indirectly through pensions and other retirement accounts. Higher corporate tax lowers the value of future cash flows from corporations, reducing stock values. **In 2019, about 53 percent of families owned stocks, including about 31 percent of families in the bottom half of the income distribution.** On average, at year-end 2018, 63 percent of 401(k) participants' assets were invested in equity securities through equity funds, the equity portion of balanced funds, and company stock.

CLAIM: The U.S. government collects very little corporate tax revenue compared to our trading partners.

FACT: This claim fails to take into account tax revenues from pass-through businesses like partnerships, which make up the vast majority of U.S. businesses.

Comparing U.S. corporate tax revenues to the revenue collected by Organisation for Economic Co-operation and Development (OECD) countries **ignores the significant trend of U.S. businesses to operate in pass-through form,** as partnerships or S corporations. Taxes on pass-through business income are collected through the individual income tax. Pass-through businesses are much smaller players among other OECD countries. In an OECD survey based on 2014 data, pass-through entities accounted for an average of only 25 percent of business income in all surveyed countries, but they accounted for 50 percent of U.S. business income, and the U.S. percentage continues to grow. In 2016, only 42 percent of net business income in the United States was earned by corporations, down from 78.3 percent in 1980.

CLAIM: Raising U.S. corporate taxes will not affect the competitiveness of U.S. companies.

FACT: The success of U.S. businesses depends on their ability to compete globally, and there are signs that U.S. businesses are facing growing threats to international competitiveness.

China had more companies in the Global Fortune 500 than did the United States or any other country in 2020. Between 2000 and 2020, **the number of U.S. companies on the Global Fortune 500 has declined by more than in any other country**. The U.S. share of world GDP has declined by about 5 percentage points between 2000 and 2019 and is now under 25 percent.

U.S. jobs benefit from the success of U.S. companies, both in the United States and abroad. Economists have estimated that **a 10 percent increase in foreign employment leads to a 6.5 percent increase in domestic employment**. Given that domestic employment of U.S. multinationals is nearly twice that of their foreign employment, this also implies that for every 100 jobs lost abroad, U.S. companies will lose 129 U.S. jobs.

According to the Tax Policy Center, **the Democrats' plans would** "**put U.S. firms at a disadvantage relative to foreign multinational enterprises (MNEs),** most of whose home countries have 'territorial' systems that exempt active foreign earnings from corporate income tax. All else being equal, **Biden's proposal would likely reignite corporate inversions**—transactions where U.S. multinationals become foreign multinationals, usually through acquisition by a foreign company."

CLAIM: The Tax Cuts and Jobs Act created a huge tax break for U.S. companies on their foreign earnings.

FACT: A significant tax increase—the opposite of a tax break—was enacted into law.

The Tax Cuts and Jobs Act created a new global minimum tax—the global intangible low-taxed income (GILTI) tax, on U.S. companies' foreign earnings. The Joint Committee on Taxation projected that GILTI would **RAISE** $112 billion of revenue over the 10-year budget period. GILTI is a minimum tax, not a tax break.

The United States was the first and only country to enact a global minimum tax, and no other country has followed. Of the other G7 countries, **ALL of the active foreign business income is either fully exempt or subject to a de minimis tax** (typically about 1 percent).

The Biden Administration has proposed adopting a pure worldwide system by at least **doubling** the minimum tax and applying it on a much harsher basis. Even though the OECD is considering a global minimum tax, the OECD has acknowledged that **GILTI is already harsher than the minimum tax being considered by OECD countries.**

CLAIM: The Tax Cuts and Jobs Act has incentivized U.S. companies to move jobs and operations offshore.

FACT: There are no data to suggest that companies are moving assets or operations offshore. In fact, Bureau of Economic Analysis data suggest just the opposite.

According to the Bureau of Economic Analysis, **U.S. parent companies grew faster than their foreign affiliates** in 2018 in employment, value added, expenditures for property, plant, and equipment, and research and development expenditures. This contrasts with the general long-term trend prior to the enactment of the Tax Cuts and Jobs Act. In 2018, U.S. parent companies experienced faster growth rates in these measures than they had historically, while their foreign affiliates grew at below-average rates.

M&A data also show U.S. companies are more successfully growing their businesses by acquiring foreign businesses than being the target of foreign acquisitions. Overall, recent data show that for the first time since 2013, the dollar share of outbound transactions—that is, acquisitions by U.S. companies of foreign assets and companies—exceeded inbound transactions—that is, acquisitions by foreign companies of U.S. assets and companies—in the period 2018 and in 2019 following enactment of the Tax Cuts and Jobs Act. The average annual dollar value of outbound transactions in 2018 and 2019 was 50 percent greater than the average in the two preceding years, before enactment of the Tax Cuts and Jobs Act.

These data are also supported by public statements and SEC filings: **many companies that had announced plans to invert or actually did relocate abroad later rescinded those plans, or came back to the United States after the Tax Cuts and Jobs Act**, including Assurant, Broadcom, Mylan (merger with Pfizer's Upjohn division), and Allergan (merger with AbbVie). Several of these companies specifically cited the Tax Cuts and Jobs Act as a motivating factor in returning to or not leaving the United States.

CLAIM: The new minimum tax (GILTI) includes a tax break that encourages U.S. companies to invest in factories overseas.

FACT: Like President Obama's minimum tax proposal and the current minimum tax proposal at the OECD, GILTI excludes a normal return on hard assets. There is no evidence to suggest it incentivizes investment overseas.

TCJA critics are pointing to a provision in the GILTI calculation that provides an exclusion for a return on hard assets. This type of exclusion is a **normal feature of a global minimum tax** because there is a recognition that profits attributable to hard assets are not susceptible to profit shifting, that companies need to be close to their customers, and returns on hard assets are normally taxed by the local jurisdiction. In fact, **the OECD minimum tax being considered is more favorable for companies because it includes an exclusion attributable to both tangible assets and payroll.** Even President Obama's proposals for a minimum tax provided an exclusion for a return on active assets "to exempt from the minimum tax a return on the actual activities undertaken in a foreign country." The policy rationale is clear: "The exemption is firmly rooted in economic and fiscal policy of not taxing the normal rate of return on tangible assets." Contrary to these claims, there is no evidence to suggest it incentivizes companies to invest overseas.

CLAIM: Profit shifting by U.S. companies costs the United States $100 billion of revenue.

FACT: This claim is based on misleading research that has been widely criticized for using flawed data that double count the profits of U.S. companies.

For example, research by accounting professors Jennifer Blouin and Leslie Robinson corrected the data used by Deputy Assistant Secretary Kimberly Clausing and found that profit shifting accounted for **one-tenth of the revenue loss claimed by Clausing**.

In Clausing's testimony before the Senate Finance Committee, representing the official position of the Biden Administration, Clausing **cites her own research** for conclusions on profit shifting. Yet, her article states that "[s]tudies of the TCJA are relatively speculative at this point, and to my knowledge, there is not yet substantial work estimating how the legislation will affect profit shifting." Clausing's analysis is not based on any data following the enactment of the Tax Cuts and Jobs Act.

CLAIM: The corporate tax is an "efficient tax."

FACT: There is widespread understanding that the corporate tax is a highly inefficient way for the government to raise revenue.

Summarizing that understanding, the OECD states the corporate income tax is **the least efficient of all taxes.**

CLAIM: The Tax Cuts and Jobs Act gave colossal benefits to colossal multinationals, but the promises made to workers have always come up empty.

FACT: Less than 23 percent of the static "cost" of the Tax Cuts and Jobs Act was related to corporate and international tax provisions—and much less so after taking into account behavioral effects.

The "conventional" (or "static") revenue estimate of the Tax Cuts and Jobs Act (TCJA) by the nonpartisan Joint Committee of Taxation (JCT) determined that the individual tax provisions included in TCJA cut taxes by $1.127 trillion over 10 years (including $573 billion attributed to child tax credit expansion), while the corporate and international tax provisions "cost" $329 billion over that same period. Moreover, JCT's "macroeconomic" (or "dynamic") analysis of the bill reduced the Tax Cuts and Jobs Act's "cost" by $451 billion—largely driven by the reduction in business tax rates and expanded expensing of business assets. Thus, the true macroeconomic "cost" of the Tax Cuts and Jobs Act's corporate and international provisions, if any, were far from "colossal" compared to the tax cuts for workers and families.